

A Populist Waiver

The Statesman

May 05 2017

In one of the first acts of his newly elected Government, replicating Congress-style populism, the UP Chief Minister Yogi Adityanath has announced a waiver of loan upto Rs 1 lakh for about 85 lakh small and marginal farmers in UP covering more than 90% of the state's farming community. This will cost the UP exchequer a whopping Rs 36,729 crore, coming close to Rs 52000 crore farm loan waiver scheme announced by then UPA Finance Minister Mr Chidambaram in 2008 budget, ahead of the 2009 general elections that returned UPA to power. The UP government will have finance this through market loans, putting in serious jeopardy its fiscal deficit limit of 3% of GDP set by the FRBM Act which it has already breached. Of course, Adityanath was only fulfilling BJP's election promise, and he cannot perhaps be faulted on this. But both the election promise and the loan waiver raise several disturbing questions, and the nation needs to ponder seriously over these questions.

Whether the scheme will relieve the woes of the farmers is an altogether different matter, given the pathetic record of the state in delivery. Despite the energy the new CM seems to have infused into UP's decrepit administrative apparatus, he has to deal with the same dysfunctional bureaucracy that has failed the state for so long. It will be foolhardy to expect that the delivery system will transform itself overnight into an efficient one.

Governance is all about efficient and effective delivery, which calls for careful planning and monitoring. Most government schemes suffer universally from wastefulness, leakages, financial misappropriations, and institutionalisation of corruption, which together render the outcomes of such schemes poor and sub-optimal. The 2008 UPA loan waiver scheme was audited by the CAG, whose report revealed many serious lapses and deficiencies in delivery. Out of 3.73 crore farmers who were given debt relief, CAG had test-checked some 90000 cases, and more than 20000 (22% of checked cases) revealed serious lapses. Thousands of ineligible farmers received benefits of the waiver while deserving farmers were left out; benefits were irregularly extended to microfinance institutions and banks in violation of the guidelines. Tampering of records was widespread. In fact BJP itself had then demanded a CBI inquiry at that time, terming this as "a big fraud committed on the nation" involving a "huge scam of Rs 10000 crore." The outcome is unlikely to be different this time also.

Further, NSSO data shows that less than half of the small and marginal farmers in UP were actually indebted to banks, while majority of farmers were indebted to informal or non-institutional sources like local money lenders, traders, or bigger farmers; they will not get any benefits under the scheme. The smaller the land holding of a farmer, the less likely he is to get a bank-loan. Among farmers with less than one acre of land, just 28% have outstanding bank loans; the remaining 72% owe money to non-formal creditors, mainly money lenders. Thus the intended relief to small and marginal farmers remains in doubt.

As regards the economic fallout of the waiver, one needs to remember that UP's debt burden is next only to West Bengal and Punjab, with its outstanding liability amounting to over 32% of its GSDP in 2014-15, in which year alone it had raised Rs 35520 crore, compared to Rs 14900 crore in the previous year. The fiscal deficit had exceeded the FRBM limit by 0.33% as a result, and interest payment amounted to Rs 18865 crore, or 11% of revenue expenditure. With this additional Rs 36000 to be raised in 2017-18, its debt burden and interest liability will increase alarmingly. Servicing this debt will squeeze availability of funds, with most of the borrowed funds going towards repayment of the existing loans, and very little accruing to the state for use in development. The consequences on development of the impoverished state would be disastrous.

This is not to argue that distressed farmers should not be provided succour when they need it the most, but the mode of providing such succour needs to be carefully thought through. It distorts the loan discipline and encourages willful default, as the RBI Governor had already pointed out. It actively promotes a culture of irresponsibility. The banking system, already reeling under unmanageable NPAs, takes a further beating while the wilful defaulters stand to benefit. There are many other ways of providing assistance to affected farmers.

Further, this may signal the beginning of a much more serious contagion which is likely to spread like a cancer in our body-politik. As Ashok Gulati and Siraj Hussain had pointed out, in Punjab, Congress's manifesto had promised a similar step. Madras High Court has suggested farm loan waivers to the Tamil Nadu government. Maharashtra, Karnataka and Kerala, which are suffering from drought, will follow suit. With state elections due in several states before 2019 Lok Sabha elections - in Gujarat, Himachal Pradesh, Rajasthan, Madhya Pradesh, Karnataka, Chhattisgarh and four northeastern states, it could only be a matter of time before such waivers become an all-India norm, to be financed through state budgets, throwing any semblance of fiscal and financial discipline to the winds. FRBMs which had rescued the states from the brink of the disaster of falling irrevocably into a debt trap might as well be scrapped.

History has proved time and again that bad economics is not good politics. But then it harps on the question of political parties promising freebies – ranging from colour TVs, laptops and mixer-grinders to free electricity, water or loan waivers in their election manifestos - which is the root of the problem. Political parties have appropriated for themselves the blanket authority to dole out national resources under the garb of democracy.

In the case of *S Subramaniam Balaji vs. Government of Tamil Nadu (2013)*, the Supreme had observed, that "the reality cannot be ruled out that distribution of freebies of any kind undoubtedly influences all people. It shakes the root of free and fair elections to a large degree." However, since distribution of freebies or other promises made in an election manifesto cannot be construed as a 'corrupt practice' under section 123 of the Representation of the People Act, 1951, the Supreme Court directed the Election Commission to frame appropriate guidelines in this regard.

All political parties predictably reacted to this judgment, because it hurt their common interest by limiting their authority to dole out national resources for petty electoral gains. They argued that political parties, being committed to the Constitutional goal of a welfare state, were within their rights to frame their

election manifestos highlighting the way they would serve the voters if voted to power, and hence the promises were neither meant to act as bribes nor to influence the voters unduly.

Article 324 of the Constitution gives the Election Commission unfettered powers to superintend, direct and control the election process which implies monitoring activities of political parties including promises made in their manifestos for conducting free and fair elections. In accordance with the Supreme Court directive, the Commission introduced in its Model Code of Conduct the following 'Guidelines on Election Manifestos':

- "The Election Manifesto shall not contain any promises that go against the ideals and principles enshrined in the Constitution."
- India being conceived as a welfare state under the Directive Principles of the Constitution, "there can be no bar on the state adopting welfare measures. But, political parties must refrain from making promises that undermine the purity of the election process or aim to exert undue influence on the voters."
- "There must be transparency with respect to the promises and how the parties aim to implement their promises. The promises must also be credible. Wherever freebies are offered, parties must broadly state how they plan to gather the funds and finances to fulfil such promises."

The wording of the guidelines thus leaves the field wide open for political parties to make any promises including freebies to the voters which goes against the spirit of the Supreme Court ruling. Apparently the Commission had succumbed to the pressure of the political parties, forgetting that in a mature democracy, a political party only owes good and corruption-free governance and nothing else to the electorate. It also undermines the fact that the relief offered by the freebies like loan waivers or subsidized power etc. is only temporary and ignores the solution to the larger problem of scarcity, input costs and capacity, which have to be addressed effectively, over a longer time-period, using the same national resources.

In view of the spate of impending elections, the Election Commission may be well-advised to revise its guidelines in respect of freebies to bring in a semblance of discipline and responsibility in the election process. It owes to the country which might be its lasting legacy.